

**DEPARTMENT OF AGING**

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April 21, 2010

Sylvia Mann, Executive Director  
Orange County Community Services  
Office on Aging  
1300 South Grand Avenue, Building B  
Santa Ana, CA 92705

Dear Ms. Mann:

**FINAL NOTICE OF AUDIT DETERMINATION, PSA # 22  
TITLE III/VII, III-E, V, CBSP, HICAP, and OVRI PROGRAMS  
FOR THE FISCAL PERIODS: JULY 1, 2004, through JUNE 30, 2007**

Enclosed is the California Department of Aging's (CDA) Final Notice of Audit Determination (NAD) for Orange County Community Services, Office on Aging (County). This review covered Title III/VII, III-E, V, Community-Based Service Program (CBSP), Health Insurance Counseling and Advocacy Program (HICAP), and the Ombudsman Volunteer Recruitment Initiative (OVRI) programs for the above periods.

The Final NAD presents our conclusions pertaining to the County's Financial Closeout Reports (reported program expenditures), accounting records, internal controls, and compliance with grant requirements for the above referenced programs.

The Final NAD also represents our resolution of the County's contracts for the periods referenced above. The results of CDA's review, the tests performed, and the procedures to resolve the findings were discussed at the exit conference on January 27, 2010, and a Draft NAD was issued on March 4, 2010. The result of the disallowed costs of \$90,631 indicated in Audit Findings No. 1 through No. 3 will result in an adjustment of \$34,885 to future funding for Nutrition Services Incentive Program (NSIP) and HICAP federal programs. The disallowed \$55,746 for HICAP and Linkages State programs will be invoiced by CDA Accounting and must be repaid to CDA.

The Final NAD details one internal control finding and two grant compliance findings. While CDA is not requiring that you submit a corrective plan, please be aware that your corrective actions to these findings will be reviewed during CDA Audit Branch's next site visit.

Sylvia Mann  
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If you have any questions regarding the Final NAD, please contact me at (916) 419-7522 or [benglund@aging.ca.gov](mailto:benglund@aging.ca.gov).

Sincerely,

Beverly D. Englund  
Audit Branch Manager

Enclosures

cc: Lynn Daucher, Director, CDA  
Don Braeger, AAA-Based Team B, CDA (via e-mail)

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**ORGANIZATION:** ORANGE COUNTY COMMUNITY SERVICES,  
OFFICE ON AGING (PSA #22)  
**FOR THE PERIOD:** JULY 1, 2004 THROUGH JUNE 30, 2007

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**Programs :** Title III/VII, III-E, V, Community Based Service Program (CBSP), Health Insurance Counseling and Advocacy Program (HICAP), and Ombudsman Volunteer Recruitment Initiative (OVRI).

**Contracts/Grant Nos:**

AP-0405-22	HI-0405-22	TV-0405-22
AP-0506-22	HI-0506-22	TV-0506-22
AP-0607-22	HI-0607-22	TV-0607-22

The California Department of Aging's (CDA) Audit Branch has completed a review of Orange County Community Services, Office on Aging (County or Agency) to resolve grant contracts with CDA.

The purpose of our review and the tests conducted was to determine the:

- Fairness of reports on financial closeouts submitted to CDA;
- Adequacy of the County's internal accounting and administrative controls; and
- County's compliance with applicable laws, regulations, and contract requirements.

**REPORT ON FINANCIAL CLOSEOUT**

CDA reviewed the County's single audit reporting packages and official accounting records for the fiscal periods under review to determine the actual and allowable expenses of Title III/VII, III-E, V, CBSP, HICAP, and OVRI programs. CDA compared the County's direct and subcontractor expenses against amounts reported to CDA on the Financial Closeout Reports (CDA -180, 230, 90, 102, and 002) to help determine the overall accuracy of grant funded expenses reported. Based on CDA's review, CDA noted \$61,923 of self-identified disallowed costs for contract resolution for fiscal period 2005/06. CDA identified \$4,909 of disallowed costs for HICAP due to the Agency erroneously claiming more expenditures on the Financial Closeout Report than was incurred for fiscal period 2005/06. CDA further identified \$23,799 of disallowed costs for subcontractor South County for Programs C-1 and C-2 for fiscal period 2004/05. (See Audit Findings on pages 2-5).

Overall, CDA Audit Branch determined that, after adjustments for the disallowed costs shown on Schedule A, the financial closeout reports fairly present the County's financial operations for the Title III/ VII, III-E, V, CBSP, HICAP, and OVRI programs.

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**REPORT ON INTERNAL CONTROL**

The County's single audit reporting packages, for the above fiscal periods, did not include any reportable condition or material internal control weaknesses related to Title III/VII, III-E, V, CBSP, HICAP, and OVRI programs. CDA conducted additional tests to obtain assurance regarding internal controls. The CDA Audit Branch noted some internal control weaknesses in the Audit Findings below.

**AUDIT FINDING #1**

**The County had internal control deficiencies which prevented timely identification of a subcontractor's, South County, failure to utilizing all its Nutrition Services Incentive Program (NSIP) funds. The County made unauthorized adjustments to claim more NSIP and federal funds for South County when South County did not have expenditures to support the adjustments.**

**CRITERIA**

According to 45 CFR Section 92.20, (b) (3) & (4), "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant."

**CONDITION**

The County claimed \$23,799 of NSIP funds for South County for expenditures that were not incurred by South County. Additionally, South County did not utilize all its available NSIP funds.

**CAUSE**

The County's Financial Closeout Report overstated expenditures of \$23,799 for South County. The County made adjustments to the closeout report with the intention to pay back the County General Fund for expenditures incurred by Feedback Foundation.

**EFFECT**

The County's Financial Closeout Report inaccurately reflected that South County

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received \$23,799 for NSIP expenditures.

**RECOMMENDATION**

The County should exercise internal control over subcontractor budgets to ensure payments and expenditures are utilized in accordance with contractual agreements, and reflected accurately on the Financial Closeout Reports.

**REPORT ON COMPLIANCE WITH GRANT REQUIREMENTS**

The County's single audit reporting packages, for the above periods, did not include any reportable conditions, or material internal control weaknesses related to Title III/VII, III-E, V, CBSP, HICAP, and OVRI programs.

CDA conducted additional tests we considered necessary to obtain assurance of County's compliance with grant requirements. Based on the Financial Closeout Reports, our review, and testing, we conclude that, except as noted in CDA's audit findings below, the County's operation of the Titles III/VII, III-E, V, CBSP, HICAP, and OVRI programs were in compliance with applicable laws, regulations, and contract requirements.

**AUDIT FINDING #2**

**Reported HICAP expenditures were not supported by the County's general ledger. Reported expenditures exceed those per the general ledger by \$4,909 for fiscal period 2005/06.**

**CRITERIA**

According to Exhibit D, Article VI, Section D states, "Adequate source documentation of each transaction shall be maintained relative to the allowability of expenditures reimbursed by the State under this Agreement. If the allowability of expenditures cannot be determined because records or documentation of the Contractor are nonexistent or inadequate, according to General Accepted Accounting Principles and Procedures, the expenditures will be questioned in the audit and may be disallowed by the State during the audit resolution process."

**CONDITION**

The County reported and claimed \$41,414 for HICAP Administration. However,

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actual expenditures per the general ledger were \$36,505. This is a difference of \$4,909.

**CAUSE**

The County failed to reflect actual expenditures on the Financial Closeout Report.

**EFFECT**

The County overstated HICAP Administration by \$4,909.

**RECOMMENDATION**

The County should ensure that reported expenditures on the Financial Closeout Reports are accurate.

**AUDIT FINDING #3**

**The County had not performed contract resolution at the time the fieldwork commenced. Contract resolution was subsequently performed, resulting in self-identified disallowed costs of \$61,923.**

**CRITERIA**

According to Exhibit D, Article X, Sections C states, "The contractor shall perform a reconciliation of the "Financial Closeout Report" to the audited financial statements. The reconciliation shall be maintained and made available for Department review. The Contractor shall have the responsibility for resolving its contracts with subcontractors to determine whether funds provided under this Agreement are expended in accordance with applicable laws, regulations, and provisions of contracts, or agreements." Article X, Section F further states, "The contractor shall prepare a summary worksheet of results from the contract resolutions performed of all subcontractors. The summary worksheet shall include, but not limited to, contract amount; amount resolved; variances; whether an audit was relied upon or the Contractor performed an independent expense verification review (alternative procedures) of the subcontractor in making a determination; whether audit findings were issued; and, if applicable, issuance date of the management letter."

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CONDITION

Contract resolution was not performed on subcontractors per the provisions of the contract between CDA and the County, at the time of initial fieldwork.

CAUSE

The County was not aware of the difference between contract resolution and fiscal monitoring.

EFFECT

The County had not conducted contract resolution. The County was granted time to resolve contracts and prepares written policies and procedures. The County currently has acceptable written policies and procedures to resolve service provider contracts and adequately conduct its contract resolution in accordance with its policies and procedures. The County identified disallowed costs of \$61,923 from Council on Aging as a result of performing contract resolution. We reviewed the County's contract resolution and determined that the work performed was adequate.

RECOMMENDATION

We recommend the County follow the policies and procedures to perform contract resolutions as required by the provision of the Agreement between CDA and the County.

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James Lee  
General Auditor III

**Orange County Community Services, Office on Aging  
FY 2004/05 through FY 2006/07  
Title III/VII, III-E, V, CBSP, HICAP and OVRI Programs**

**Schedule A - Final Disallowed Costs**

<b><i>FY 2004/05</i></b>	<b><u>Program</u></b>	<b>Amount Questioned</b>
Disallowed Costs	NSIP - Federal	\$23,799

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<b><i>Total Disallowed Costs for FY 2004/05</i></b>	<b><i>\$23,799</i></b>
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<b><i>FY 2005/06</i></b>	<b><u>Program</u></b>	<b>Amount Questioned</b>
Disallowed Costs	HICAP - Federal	\$11,086
	HICAP - State	\$26,332
	Linkages - State	\$29,414

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<b><i>Total Disallowed Costs for FY 2005/06</i></b>	<b><i>\$66,832</i></b>
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<b><i>Grand Total for All Fiscal Years</i></b>	<b><i>\$90,631</i></b>
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